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SUBJECT: DUARTE UPDATE

Classified By: AMB James C. Cason; Reason 1.4(b), (d)

¶1. (U) Summary. Shortly after President Nicanor DUARTE Frutos took office in 2003, he forged an accord with the opposition centered on promoting reform and combating corruption. His embrace of sound macroeconomic policies brought Paraguay back from the brink of bankruptcy; his promise of reform inspired hope that Paraguay might turn the page on corruption. His poll numbers soared over 70 percent.

¶2. (C) One year from the end of his term in office, Duarte is no longer regarded as the answer to Paraguay's problems, but rather just another example of failed promise and leadership - a tired product of the perverse culture of corruption that pervades Paraguay. His predecessors fled office hounded by claims of corruption. Duarte, no doubt, will similarly face corruption charges upon leaving office. However, unlike his predecessors, Duarte is not ready to bow off stage quietly. He appears determined - bordering on obsessed and to the detriment of the country's institutions and perhaps the Colorado Party's staying power - with remaining Paraguay's most dominant political figure.

¶3. (C) And yet for all Duarte's failings - personal and political - Paraguay has limped forward under his tenure. Despite widespread dissatisfaction with democracy for "failing" to deliver prosperity and security, no segment of society, including the military, proposes publicly and seriously that Paraguay should abandon its commitment to democracy. While Paraguay's growth numbers are unimpressive, it has been able to keep inflation under control and resisted the temptation to borrow beyond its means. And Paraguayan institutions have registered some measured success in the fight against organized crime and corruption, thanks in large measure to U.S. policies and programs which have proven to be transformational.

¶4. (C) The coming year through to elections in April 2008 promises much dishevel as the fragmented opposition seeks to forge a united effort to end 60 years of uninterrupted Colorado Party rule. Duarte and the Colorado Party are pulling out all the stops - including tapping into funds derived from criminal activities - to stave off defeat. We will not want to pick sides in what promises to be a messy electoral season. However, we will want to demonstrate the importance we attach to a free, fair and transparent electoral process. And we should be prepared to support the investigation and prosecution of individuals involved in organized criminal activity - including money laundering and drug trafficking and regardless of political affiliation - as part of our efforts to turn back the culture of impunity and advance prospects for democracy. END SUMMARY.

THE HONEYMOON

15. (U) Duarte's election in 2003 inspired unprecedented hope that Paraguay could combat corruption and embrace a more prosperous future. Duarte quickly signed an agreement with the leaders of the opposition political parties committing himself to enacting measures of state reform. He appointed several serious non-political technicians to head key ministries such as Finance and Industry. He won agreement to remove six Supreme Court judges as part and parcel of his plan to combat corruption at the highest levels. He won passage of a bill to introduce a national income tax.

16. (U) The U.S. stepped up assistance in the form of experts from the Treasury's Office of Technical Assistance, USAID democracy and anti-corruption programs, and INL funds to counter IPR violations and drug trafficking. Thanks to the OTA's program, we have five experts embedded in key Paraguayan ministries and institutions, including Ministry of Finance (Hacienda), Customs (Aduanas), and the Central Bank. Our USAID programs: 1) fostered democracy at the grassroots level by working directly with municipalities and local citizen groups; and 2) strengthened the ability of the Controller General's office to support the investigation of corruption within the government. USAID's rule of law assistance has also established protected "whistleblower" systems at the Ministry of Finance (Hacienda) and at the Public Ministry which we are helping to expose internal corruption cases. Our INL funds contributed to the creation of a new unit within the Ministry of Industry and Commerce (MIC) dedicated to fighting IPR violations and underwrote the construction of a new facility for the Anti-Drug Secretariat (SENAD) in a region of Paraguay notorious for drug trafficking.

#### DUARTE UNDONE BY OWN AMBITION, CULTURE OF CORRUPTION

17. (C) Duarte's fiscal policies produced good macroeconomic numbers - low inflation, low debt - but could not attract the investment nor produce the jobs to stimulate the kind of growth numbers Paraguay needs to escape its long-standing economic malaise. His failure to deliver on promises to turn back corruption has proved a key factor in his undoing. Many continue to regard the beleaguered justice sector as a critical component for turning Paraguay's reputation and political fortunes around. Yet, all of the components of Paraguay's law enforcement and judicial process evince clearly that they are influenced and controlled by political officials. Paraguay's police force is considered corrupt to the core with many officials - senior as well as rank and file - implicated in serious crimes including kidnapping, auto theft, and drug trafficking. Police chiefs are effectively appointed by politicians who seek to protect many of their own corrupt activities. Some of Paraguay's prosecutors appear committed to doing the right thing in prosecution of senior officials for corruption. But they and the country's corps of judges are held hostage to a selection system that requires them to curry favor with political officials to stay in office. And when prosecutors are able to overcome all obstacles and win a key conviction against the power structure, Paraguay's Supreme Court, shamelessly subservient to political and economic interests, regularly overturns those convictions on appeal.

18. (C) Duarte himself has spoken publicly and privately regarding the pressure he faces in seeking to effect reform within his party and the overarching political culture. It is no accident the Colorado Party has retained the upper hand over Paraguay's political system for the last 60 years. It boasts a remarkable party structure that extends across the entire country, delivering goods, services, and jobs on the basis of party affiliation. Friends of the party win major contracts and work out sweetheart deals on public works projects. When elections roll around the party collects on debts in raising campaign funds from all quarters - including funds derived from illegal activities. And when its members are implicated in criminal activities, they are protected by a system that responds directly to personal appeals by senior political officials.

¶9. (C) If Duarte genuinely sought to reform the system - and that is increasingly questionable especially given evidence he has handsomely profited personally from it - this objective clearly lost out to his own personal ambition. Duarte was regarded as relatively soft-spoken and reserved before he took office. In the four years since, though, his ego - and some might suggest his delusions of power - have grown immensely. He has proven insistent at staying at the fulcrum of the political scene - ironically to his own detriment. In early 2006, he could not cede the party presidency to someone else - eventually forcing the Supreme Court to rule in his favor - and in the process inciting the opposition to unite in condemnation of the Supreme Court and him. He spent the better part of the last two years maneuvering in vain to secure the votes necessary to amend the constitution so that he could seek reelection. He still has not given up, but in the meantime, he has had the audacity to not only handpick the Colorado Party's official candidate for President but also her running mate whose only noteworthy claim to fame is having served as Duarte's private secretary over the last year and a half. In the process, his

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reform agenda has taken a back seat, and the fortunes of some of the Colorado Party's more corrupt elements have risen.

THE GLOVES COME OFF

¶10. (C) With elections scheduled for April 2008, Paraguay's institutions are coming under increasingly visible stress as the Colorado Party seeks to consolidate its allies to retain its hold on office.

--Historically, the Supreme Electoral Tribunal (TSJE) has been considered one of the more reputable institutions in the course of Paraguay's transition to democracy. Over the past year, however, its reputation has taken a beating with two of its three members under attack by the opposition for favoring Colorado Party interests. The opposition seeks to impeach them and has called upon the Attorney General's office to investigate charges of malfeasance, but it is unlikely these concerns will be resolved to the satisfaction of the opposition before the upcoming elections.

--Supreme Court could assume a critical role in resolving key political issues in the run-up elections - including determination of the eligibility of leftist priest Fernando Lugo to be president. Members of the Court are confirmed to office for five year years and are to retire when they turn ¶75. The Colorados presently control six of the nine seats. However, one Colorado judge's term ran out last November, another's expires this coming November, and a third just turned 75 on July 4. Traditionally, the incumbents stay on until a replacement is confirmed. One of the Colorados whose term has already expired is the Vice-President of the selection committee which is controlled by a Colorado Party majority. To date, over the strong objections of the opposition, this committee has refrained from announcing the Supreme Court vacancies effectively preventing the selection process from going forward.

--The opposition secured the presidency of both houses of Congress in late June but not before the Colorados came to fisticuffs with the opposition in the House of Deputies over attempts by the former to delay the inevitable. Colorado Party Senate leader Carlos Galaverna has proclaimed "a climate of war" in the Congress in response to what he described as the opposition's obstructionist approach. Should Vice-President Castiglioni step down from public office in October as stipulated by the Constitution - six months before general elections as required of candidates for the presidency - the Congress will have the right to elect his replacement - a right it did not exercise in 2003 when faced with a similar circumstance in the run-up to the 2003 elections.

--Duarte has made it clear to civil servants from minister ranks on down - either support former Education Minister

Blanca Ovelar as my hand-picked candidate for the Presidency, or hit the road. Over the last month, Duarte has removed the Minister of Works and the Director of Aviation for favoring other candidates. Meanwhile, over U.S. objections, he has appointed Aristides Cabral - a senior police official implicated in corruption and forced into retirement last year - to a newly created advisory position and allowed the suspect director of Paraguay's Secretariat for the Prevention of Money Laundering (SEPRELAD) to stay on.

#### TINY POINTS OF LIGHT

¶11. (C) And yet despite the dimming light, Paraguay continues to promise some hope for the future.

--Notwithstanding disappointment with democracy for "failing to deliver the goods," there appears a general recognition that a return to the authoritarianism of the past promises only greater despair and exclusion. Paraguay's military is headed by a highly respected official trained in the U.S. dedicated to strengthening the military as an institution but evincing no desire to enter into politics. Paraguay's Congress is one of the least respected institutions and regularly fails to muster a quorum as one or the other side seeks to undermine the other's agenda. Yet, just when it appears on brink of implosion in the wake of a fight on the floor of the Congress, the two opposing sides are able to come together to make it work - if just barely.

--For all the problems that exist at the core of Paraguay's law enforcement system, several autonomous investigation units have proven effective - thanks in large measure to U.S. assistance. SENAD, which works very closely with DEA, just made the largest cocaine seizure ever and has arrested major drug traffickers over the last two years. Meanwhile, the Specialized Technical Unit (UTE), largely funded by U.S. INL funds to combat IPR violations, made significant seizures over the course of its three years of existence. MCA Threshold Program funds have contributed to the creation of vetted investigation units in Public Ministry, Treasury, Customs, and the Controller General's Office that make it more difficult at each turn for Paraguay's politicized judicial process to sweep away strong cases without calling the attention of the press or general public.

--Paraguay's House of Deputies did pass a very worthy Penal Code Reform bill that includes provisions to criminalize terrorist financing, although the bill still faces final approval hurdles. The progress thus far would not have been possible without the unique contribution of post's Resident Legal Advisor and USAID technical experts who participated as active members of the commission drafting the legislation. A draft Procedural Code Reform bill will come under consideration by the Congress in short order.

--Paraguayan civil society has not long distinguished itself for actively engaging on political matters. However, frustrated with the failure of its elected officials to deliver on their promises, NGOs are becoming increasingly more outspoken in denouncing corruption and demanding accountability. USAID funds contributing directly to the creation of citizen watch groups have accelerated this process. Last year, the opposition produced a surprisingly large and peaceful turnout to condemn the Supreme Court and register general dissatisfaction with the government. NGOs are just starting to hit their stride, and all signs suggest this trend will continue.

#### CHOOSING BATTLES

¶12. (C) The upcoming election promises to be ugly. Duarte has attacked the manhood of the acting Colorado Party President - a lifelong friend - and has taken to accusing the opposition's candidate, leftist priest Fernando Lugo, of involvement in kidnappings. This is a reflection of Duarte's own questionable mental state of health, a concern widely talked about in political and journalistic circles - but also reflects heightened Colorado Party concern over the

threat posed by the united opposition. We will want to speak to the importance we place on free and fair elections but stay clear of choosing sides in the contest.

¶13. (C) U.S. policy and programs have contributed directly to the strengthening of Paraguayan institutions on a variety of fronts. The MCA Threshold Program carries much potential in terms of creating new systems and strengthening institutions to combat impunity and foster formality. The Paraguayan government knows our assistance comes with strings attached and that future resources are reliant on concrete performance. Of course, the government's disposition to cooperate in the fight against impunity goes only so far - namely to the point it starts impacting significant political interests.

¶14. (C) Corruption is rife in Paraguay. This is no secret. As we enter the election season, political players become increasingly less concerned about the source of electoral funding. Duarte has already signaled his readiness to sign up to Chavez' program in a bid presumably to win Chavez' political and financial backing. He also embraced disreputable figures, including Deputy Magdaleno Silva, long accused of involvement in drug trafficking, and has instructed SENAD's Operation Director to steer clear of investigating political figures - like the tainted Silva - involved in the upcoming election.

#### OUR COURSE

¶15. (C) We have subtly signaled our concerns about the involvement of government figures or other senior business leaders in criminal activity including money laundering and drug trafficking, but our cautious approach means our concerns may not be grasped clearly by many Paraguayans. We need to be direct in producing concrete consequences for involvement in criminal activities - visa revocations, funding holds, and support for criminal investigations - both locally and in the United States. The U.S. will use all the tools to further the political will for anti-corruption laws, but the reality is that in this we can only to so far in stiffening the already white hot election scene of a government wholly focused on securing its own political advantage and positioning the coming Presidential election.

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